

9.4 CAR LOANS: BRAND NEW OR PREOWNED?

According to the Brookings Institution, approximately 76% of Americans drive to work alone every day. Since owning a car is a big part of our lives, it is important to understand the true cost involved in a car loan. Brand new cars are more expensive but often can be financed at lower interest rates, while preowned vehicles cost less but often require a loan at a higher rate. In this activity, we will explore the difference in cost between financing a new vehicle and a preowned one.

Consider two options for purchasing a Honda Fit LX: one is a brand new 2020 model with a manufacturer's suggested retail price (MSRP) of \$17,945, and the other is a preowned, two-year old model listed for \$15,000. Suppose you have saved \$1500 for a down payment and the dealer has already included any applicable fees and taxes in the advertised price. You plan on taking 5 years to pay off the loan.

The table below shows the price and interest rate for each option.

	Price	Interest Rate
2020 Honda Fit LX	\$17,945	1.9%
2018 Honda Fit LX	\$15,000	6.9%

For both the new and the preowned Honda Fit LX options, do the following.

1. Compute the amount to be financed considering that you have saved \$1500 for a down payment.
2. Determine the monthly payment (remember: you are going to pay the same amount each month to pay off this loan). Round your answer to the nearest cent.
3. Determine the total amount paid when financing the vehicle.
4. Determine the finance charge (interest) for each purchasing option.

5. Enter the answers from 1 – 4 in the table below.

	2020 Honda Fit LX	2018 Honda Fit LX
Price	\$17,945	\$15,000
Interest Rate	1.9%	6.9%
Down Payment		
Amount Financed		
Monthly Payment		
Total Amount Paid		
Finance Charge		

6. Compare the payment plans of each car. Explain the advantages and disadvantages of each using the information in the table.

7. Suppose you are a recent college graduate. Which payment plan is more appealing to you and why?